

**OBSERVATIONS ON
THE PROPOSED REVISION OF
THE PHILIPPINE-AMERICAN
TRADE AGREEMENT OF**

1946

By

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I was privileged to head an economic mission to the United States for the purpose of re-examining all aspects of our 1946 Trade Agreement with that country and recommending any revision thereof to the Philippine Government for submission to the Philippine Congress.

The Mission, after about three months' sojourn in Washington, brought back the "Final Act of Negotiations Relative to Revision of the 1946 Trade Agreement Between the Republic of the Philippines and the United States of America." The Mission has submitted its report, together with the "Final Act of Negotiations", to the President of the Philippines who, in turn, has sent a special message to Congress recommending it "give early and favorable consideration to the Final Act and authorize the President of the Philippines to enter into an Agreement with the President of the United States providing for the acceptance of the provisions of the Final Act."

I wish to make some observations on the Final Act of Negotiations.

The Preamble of the Agreement, as revised, recalls the close economic and political ties between the people of the Philippines and the people of the United States, underscores their desire to place their trade relationship

on a mutually advantageous basis in keeping with their long friendship, and recognizes the need for strengthening the economy of the Philippines to enable the young Republic to contribute more effectively to the peace and prosperity of the free world.

1. Article I, paragraph 2 (paragraph 3, Final Corrected Agreement) of the proposed revised agreement (Article I, paragraph 2 of the Trade Agreement of 1946) increases the tariff preferences for Philippine articles entering the United States. Thus, during the years 1956, 1957 and 1958, the duty to be imposed each year will be only 5% of the corresponding United States duties; under the Trade Agreement of 1946, it will be 15%, 20% and 25%, respectively, of the corresponding United States duties. A similar pattern is followed through until 1974, when the Agreement terminates. Furthermore, the tariff preferences for United States articles entering the Philippines will be decreased. For instance, during the years 1956, 1957 and 1958, the duty under the proposed revision will be 25% of the Philippine duties; under the 1946 Trade Agreement, it will be 15%, 20% and 25%, respectively, of the Philippine duties, and similarly, for the rest of the period until 1974. Whereas under the 1946 Trade Agreement, the graduated duties to be imposed by the Philippines and the United States on the products of the other were to increase at an equal rate, under the proposed revision the Philippine duties to be levied on United States products will be increased at a rate very much faster than the United States duties to be levied on Philippine products. **In other words, under the proposed revision, the application of Philippine duties on imports from the United States will be accelerated while the application of United States duties on imports from the Philippines will be decelerated.**

2. Under paragraph 7 of Article I of the proposed revision (paragraph 8, Article I, of Final Act), the present 17% special excise tax on the sale of foreign ex-

change is abolished and is substituted by a temporary special import tax which shall be progressively reduced so as to terminate by 1966.

The 17% tax on the sale of foreign exchange is at present imposed not only on visible items, such as imported goods, but also on invisible items, such as remittances of dividends or profits. The substitute in the form of the temporary special import tax in the proposed revision is intended to provide the Philippines with revenue to replace that which will be lost by the abolition of the exchange tax. This special import tax will be imposed only on the visible items. The abolition of the exchange tax will eliminate the dual rate of exchange of the Philippine peso. The United States and the International Monetary Fund have agreed to the imposition of the 17% exchange tax as a temporary measure to be discontinued as soon as the financial position of the Philippines would allow. The Philippines is permitted to levy a special import tax in addition to the ordinary customs duties, up to a level necessary to restore its customs revenue in any calendar year to the amount collected from the exchange tax on United States goods in 1955. This special import tax can be imposed by the Philippines up to December 31, 1965. During this ten-year period, it is expected that Philippine financial position will have improved markedly as a result, among others, of the benefits to be derived from the proposed revised trade agreement so as to render the imposition of the special import tax unnecessary after 1965.

As far as the protection afforded infant industries of the Philippines by the existing exchange tax of 17% is concerned, that is much less than the protection which will be afforded by the accelerated increase in the ordinary customs duties which are to be levied on United States goods, not to mention the protection to be afforded by the additional temporary special import tax.

3. Paragraph I of Article II of the Trade Agree-

ment of 1946 is amended by deleting rice, and removing cigars, scrap tobacco, coconut oil and buttons of pearl or shell from the application of the absolute quota provisions. Instead of the absolute quotas on the last four items of Philippine export, tariff quotas are established. Under the 1946 Agreement, the Philippines cannot export to the United States any amount in excess of the absolute quotas. As revised, the Philippines will be allowed to export any amount to the United States in excess of the duty-free quotas provided it pays the corresponding full United States duties.

The quotas on cigars, scrap tobacco, coconut oil and pearl buttons under the proposed revision will be diminished more gradually than the 5% annual reduction provided in the Trade Agreement of 1946. For instance, during the calendar year 1958, the percentage reduction on the quotas of the aforementioned products will be 20% under the Trade Agreement of 1946, whereas under the proposed revision, such percentage will be only 5%. Under the present Agreement, that percentage reduction will be 35% in the calendar year 1961, 50% in 1964, 65% in 1967, 80% in 1970, and 95% in 1973, whereas under the proposed revision, the percentage reductions for the same periods, would be 10%, 20%, 40%, 60% and 80%, respectively. This represents a substantial gain for the four major Philippine exports to the United States because of the deceleration of the application of the percentage reductions in the proposed revision.

4. Article II of the revised text embodies a new provision. It provides that the quota limitation on sugar shall be without prejudice to any increase which the Congress of the United States might allocate to the Philippines in the future. The quantity of sugar which the Philippines may export to the United States in the future is not frozen within the present quota.

5. Paragraphs 3 and 4 of Article II of the Trade Agreement of 1946 dictate to the Philippines the man-

ner of allocating among local producers and manufacturers the quotas on Philippine products subject to quotas in the United States. The "historical pattern" is being deleted in the proposed revision and the manner of allocating these quotas is left entirely to the judgment of the Philippine Government.

6. Under Article III of the Trade Agreement of 1946, only the United States may establish quotas on non-quota Philippine articles which may come into competition with like United States articles. As amended, Article III provides that the authority to impose new quantitative restrictions shall be reciprocal and that such restrictions may also be imposed for balance of payments reasons.

7. Article IV, paragraph 3, of the Trade Agreement of 1946 prohibits the Philippines from imposing an export tax on articles exported to the United States. This prohibition is eliminated. Actually, it is only the Philippines that gains additional power by the elimination of the prohibition, because the United States is prohibited by her own Constitution from imposing export taxes.

8. Article V of the Trade Agreement of 1946 which prohibits the Philippines from changing the value of its currency in relation to the United States dollar, suspending the convertibility of pesos into dollars, or restricting the transfer of funds from the Philippines to the United States without the approval of the President of the United States is eliminated. The power over currency is one of the essential attributes of sovereignty. Under the proposed revision, the Philippines will be free to adopt any foreign exchange control measure to protect its balance of payments position without having to secure the permission of the President of the United States. Should the Philippine Government decide to change the par value of the peso in the national interest, it could do so, subject only to its obligations to the International Monetary Fund.

9. The proposed Article VI will replace Article VII of the Trade Agreement of 1946. The proposed Article provides for the mutualization of rights between Philippine and United States citizens in the exploitation of natural resources and operation of public utilities in their respective countries. If a state of the United States denies these rights to Filipino citizens, the Philippines may, likewise, deny such rights to citizens of that State. Under the Trade Agreement of 1946 there is parity on one side; under the proposed revision there would be parity on both sides.

10. Article VII, as revised, is a new article. It provides for reciprocal non-discrimination by either Party against the citizens or enterprises of the other with respect to engaging in business activities. If a state of the United States restricts the extent to which Filipino citizens may engage in business activities, the Philippines may, likewise, limit the extent to which citizens of such state may engage in business activities in the Philippines.

11. Article VIII of the revised text is also new. It provides for security exceptions relating to fissionable materials, traffic in arms, and military secrets, in the mutual interest of the Philippines and the United States.

12. Article IX of the proposed revised agreement amends Article VIII of the Trade Agreement of 1946 by eliminating the last clause of paragraph 1 which is now obsolete, by deleting that portion of paragraph 2 relating to allocation in the Philippines of United States quotas on Philippine articles, retaining only the first sentence of the paragraph, and by deleting all of paragraph 3 which is, likewise, obsolete and not germane to the general subject of the agreement.

13. Article X (Article IX of the Trade Agreement of 1946) provides for consultation between the United States and the Philippines to take place not later than July 1, 1971, on joint problems which may arise

as a result or in anticipation of the termination of the Agreement in 1974. The year 1971 will be a crucial year because beginning that year the percentage of the United States duties to be levied on Philippine products entering the United States will jump from 60% to 80%, and duty-free quotas on certain Philippine goods will be reduced from 40% to 20%. The new provision makes consultation mandatory and the Philippines will be saved from embarrassment of having to ask for such consultation.

14. Article XI, as revised, preserves and emphasizes the temporary character of the Trade Agreement which "shall have no effect after July 3, 1974" and provides for the manner of termination of the Agreement before that date.

The above cursory examination of the proposed revised trade agreement will show that the Philippine Economic Mission has secured appreciable advantages in the **political** and **economic** fields, and **intangible benefits** which are incapable of pecuniary estimation.

For the first time in the history of our more than half a century of association with the United States, the Philippines will acquire complete **political sovereignty**: (a) we shall have complete control over our currency and may adopt any foreign exchange control measures without having to secure the approval of the President of the United States; (b) the power to tax will extend to — the imposition of export taxes; (c) the power to suspend or terminate the Trade Agreement for any reason will also be granted the President of the Philippines; (d) the power to fix quotas on American articles imported into the Philippines will also be granted the President of the Philippines; (e) the "historical pattern" in the allocation of the United States import quotas on certain Philippine articles is abolished; (f) the right of Philippine and United States citizens to exploit natural resources and operate public utilities in the country of the other is mutualized; and (g) reciprocal non-discrimi-

nation by either the Philippines and the United States against the citizens or enterprises of the other with respect to engaging in business activities is provided.

In the **economic field**, through the adoption of the system of acceleration and deceleration in the liquidation to tariff preferences, (a) the Philippines is expected to benefit materially during the remaining period of our preferential trade with the United States. Provisions have been inserted for (b) the opening of the door for the increase of the quota allocated for sugar; (c) the deletion of rice from articles for which quotas are fixed; (d) the elimination of the absolute quotas on cigars, scrap tobacco, coconut oil, and pearl or shell buttons which will permit the exportation to the United States of any amount in excess of the duty-free quotas, provided the full United States duties thereon are paid; and (e) liquidation of tariff preferences in such manner as will enable the Philippines to readjust her economy.

Under the proposed revised trade agreement, it is now possible for the Philippines to plan out (a) the relationship between domestic production and importation, and the industrialization program; (b) the protection of the country's balance of payments to safeguard the stability of the Philippine peso; (c) the means of improving the fiscal position of the government through the accelerated imposition of duties and the levy of a temporary special import tax on United States goods; (d) the eventual elimination of certain types of trade controls to insure a freer flow of trade; and (e) the transformation of the Philippine economy from one that is primarily agrarian to one that is partly industrialized.

The attainment alone of full political sovereignty will not only increase the stature of our country and its citizens, but will also develop self-confidence and self-reliance amongst the Filipinos. Such step will also enhance our prestige abroad no less than create favorable impression with respect to the policy of the United States

towards the Philippines. These, and more, are the **invisible and intangible assets**, not measurable in pecuniary dimension.

In considering the proposed revision to the Trade Agreement of 1946, it is well to bear in mind the following considerations: (1) that the Trade Agreement of 1946 is temporary in character; (2) that the proposed revision, being limited to the framework of the Trade Agreement of 1946, is also temporary; (3) that the Philippine Economic Mission to the United States has agreed only to **recommend** to our Government for consideration the proposed revision of the Trade Agreement of 1946 (Introductory Statement, Final Act of Negotiations); (4) that under the terms of the Agreement (original and revised), either Party may terminate it for any cause whatsoever upon not less than 5 years' written notice, and upon 6 months' written notice if either Party has applied or adopted measures or practices which would operate to nullify or impair any rights or obligations provided in the Agreement; (5) that the revised text provides for consultation between the two Governments not later than July 1, 1971 on joint problems which may arise as a result or in anticipation of the termination of the Agreement; (6) that in international negotiations of this character one party does not get everything that it wants; and (7) that the proposed revision of the Trade Agreement is no panacea for all our economic ills.

I believe that the proposed Revised Trade Agreement is at least an improvement upon the original Trade Agreement of 1946. I express the hope that, with the approval of the revised Agreement, we shall have laid the foundation of our political and economic relationship with the United States on a sound and enduring basis and charted likewise a norm of conduct worthy of a free people. With the implementation of the Revised Trade Agreement and the satisfactory solution of other vital problems now confronting us, we shall be

able, I am confident, to march onward and forward,
alongside other progressive nations of the world, to-
wards peace, prosperity and happiness for our people.

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